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13 September 1955

TO : Chief, FE Support Base

FROM : Acting Chief, Audit Office

SUBJECT: Comments re Current Procedures in Use for Financial Control of Property

Pursuant to your request for Audit Office comments on the overall property accounting system, the following is submitted.

1. We have found that one of the primary aims of the system, that of getting the physical materiel assets of KUBARK in the [REDACTED] under control, has been accomplished to a considerable degree. For the first time in our organization its materiel assets (in [REDACTED]) were placed on the books of account of KUBARK. The extent to which it has not been 100% effective in this respect cannot be attributed to technical weaknesses in the system. On the contrary the system is based on sound technical principles from the standpoint of property control. However, it is questionable whether our organization with its diverse cover mechanisms can afford a system which requires skilled technicians (who in some instances must of necessity be placed in cover units whose activities are entirely incompatible with certain system requirements) in sizeable quantity. In addition, there are certain weaknesses within the system in regard to costing of property to projects, recording of price changes and adjustments. These weaknesses in the system could be corrected. Correction of some of these system deficiencies, however, could only be accomplished at Headquarters level and would entail major policy change. For example, in order to get meaningful cost reports which reflect actual allotment charges to a program, project or activity, it would be necessary to change the current allotment procedure. Only after the basic allotment pattern has been revised could implementing procedures be written which would give the desired results.

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2. Success of any system depends upon a good understanding of the system by all persons concerned. The [REDACTED] personnel concerned with the system have not been properly schooled in the system as to (a) how to prepare documentation, (b) why it must be prepared as instructions call for, (c) importance of accuracy in original documentation, and (d) what happens to the documentation they submit. In our dealings with base personnel engaged in preparing and forwarding basic documentation for S.G.C. processing, we have found a very low incidence of knowledge of the system and a reluctance to try to comprehend it. Most base supply and finance personnel believe the system is too complex and beyond their limited accounting training, if any.

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3. Because of certain failings at Headquarters, S.C.C., and at the bases, the system has never produced desired results. The basic reasons, in our opinion, for the failure of the system to produce desired results are set forth below.

1. Insistence of Headquarters to install the system when there was virtually no trained personnel at either S.C.C. or the bases.

2. Upon installation of the system accepting a book inventory from the bases when all concerned knew such book inventories had little resemblance to materiel actually on hand or in use at the bases. (We realize this had to be done because of lack of personnel to take physical inventories.)

3. Installation of the system at bases was accomplished with limited assistance and guidance from Support Base at the time the bases needed it most, that is when they were brought into the system.

4. Installation of a system utilizing Federal Item Identification Number (FIIN) before its adoption by other Government services.

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5. Lack of a precise definition in the implementing procedures (Property Handbooks) of what property is to be subject to financial control and what is not.

6. Normal time lag in forwarding documents (pouching time) from bases to S.C.C. for processing and additional time required to prepare and return to bases the reports prepared by I.B.M. tabulating machines.

7. Lack of sufficient trained personnel at S.C.C. to perform an adequate editing job on documentation before processing.

8. Excessive time delay in notification of bases of specific procedural changes in the system. Headquarters and FE Support Base must share responsibility for this.

9. Normal time delay in notifying bases of corrections of errors by S.C.C. in documentation submitted by the bases.

10. An overall general feeling of distrust in the system generated by a lack of knowledge of the system and the processing of documentation at a point far removed from its source without prompt knowledge at the submitting base as to whether the documentation submitted by them had been correctly prepared, what happened to the documentation at S.C.C. and whether in fact such documentation

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submitted had been processed by S.C.C. This too has the effect of a general breakdown in efficiency in the initial preparation of documentation.

11. The burdening of S.C.C. as a result of Headquarters directive with the handling of excessive paper work representing so-called "wash transactions." "Wash transactions" are those transactions which encompass the procurement and simultaneous issue of items procured for immediate use.

12. Changes in the system which have been effected by means of dispatches and cables from Headquarters have never been formalized by revision of original system handbooks. Many of these changes seem to have been originated by different Headquarters elements concerned with the property system and in some instances it appears that they were not coordinated inasmuch as in the past some directives were conflicting.

13. Lack of a clear cut decision as to how to handle items procured solely for resale (food, PX items, and P.O.L. in some instances).

4. This office has been unable to effectively use stock status reports of S.C.C. in making test checks of accountable officers stock record cards and tests of property physically on hand or in use at [REDACTED]. This has been due mainly to the extensive time lag between recording on stock ledger cards and subsequent recording by S.C.C. The consequent necessary reconciliation between the two records is too time consuming a task, in most instances, for our auditors to undertake. It has been due also to the many corrections to documentation (FIIN number changes, condition changes, etc.) made by S.C.C. without information being transmitted to Accountable Officers that such corrections were made and that base accountable records should be adjusted accordingly. This accounted for the same errors occurring repeatedly at the same bases. Recently this has been alleviated to some degree by means of more current correspondence with base Accountable Officers.

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5. Attempts have been made to cope with many of the problems outlined above by the detailing of inventory teams to bases and TDI assignments of PE Support Base qualified finance and supply personnel. However, because of the magnitude of the tasks, its continuing nature and limited personnel available, an early solution to these problems was not forthcoming.

6. Many of the reasons for the current inadequacies of the system outlined in paragraph 3 above could be eliminated and the system streamlined to a workable size. As to whether this would be more economical and desirable than a complete new system, the Audit Office cannot say. This office must remain completely objective and perform our audits in accordance with KUBARK policies, regulations, and procedures in effect at the time the transactions occurred.

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7. It is realized that KUBARK has a sizeable investment in the present system, built up over a period of approximately two years. Recognizing this investment, perhaps one alternative might be to review the present system for the purpose of determining whether or not it can be simplified and improved to the point where it produces reliably the data required and at a cost which is commensurate with such results. If such a review indicates that the present system cannot be simplified and improved to that extent, the only other alternative would be the installation of a new system.

8. In order to make an effective evaluation of the overall property system, it would be necessary to have first hand knowledge of the ability of Headquarters to utilize the data reported to them from the [REDACTED] [REDACTED] Lacking the viewpoint and knowledge of Headquarters overall picture of the system, the Audit Office, whose experience with the system has been limited to the field only, is unable to make an assessment of the value of the overall system to KUBARK.

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